(3)

No. 89-1500

In The

Supreme Court of the United States

October Term, 1990

BUSINESS GUIDES, INC.,

Petitioner,

v.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC. and MICHAEL SHIPP,

Respondents

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF *AMICUS CURIAE* OF PUBLIC CITIZEN URGING REVERSAL

Alan B. Morrison
(Counsel of Record)
Public Citizen Litigation Group
2000 P Street, NW, Suite 700
Washington, D.C. 20036
(202) 785-3704

Attorney for *Amicus Curiae*
Public Citizen

CASILLAS PRESS, INC., 1717 K STREET, N.W., WASHINGTON, D.C. 20036

30 pp

QUESTION PRESENTED

May a district court utilize Rule 11 of the Federal Rules of Civil Procedure to require a party that was found to have acted negligently, but not in bad faith, to pay the attorneys' fees of the other side, in light of the prohibition in the Rules Enabling Act that precludes this Court from issuing rules that "abridge, enlarge, or modify any substantive right?"

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases: Page

Page

Statutes and Rules

Legislative History

Page

Miscellaneous

In The

Supreme Court of the United States

October Term, 1990

No. 89-1500

BUSINESS GUIDES, INC.,

Petitioner,

v.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC. and MICHAEL SHIPP,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF *AMICUS CURIAE* OF PUBLIC CITIZEN URGING REVERSAL

INTEREST OF *AMICUS CURIAE*

This brief is filed with the consents of the parties, which are being filed with this brief. Public Citizen is a non-profit organization with approximately 95,000 members throughout the United States. It actively litigates in federal courts as a party, and its attorneys provide no-cost representation to both individuals and organizations who generally cannot afford to proceed without the legal assistance which is provided by Public Citizen's attorneys. Although Public Citizen has had virtually no cases of its own in which sanctions were sought against itself, its clients, or its attorneys, its attorneys have

been called upon to represent a number of other individuals and organizations against whom sanctions have been sought or imposed. Public Citizen is interested in this case because fee-shifting of the sort devised by the lower courts will substantially discourage individuals and organizations from seeking to vindicate their rights in the federal courts. In our view the question of whether fee-shifting should be permitted is one that Congress has reserved to itself, and the merits of that issue should be decided in the legislative arena, rather than through the rulemaking process.

STATEMENT OF THE CASE

This is an action under the Federal Copyright Act, 17 U.S.C. § 501, based on a claim that respondents had copied petitioner's guide to computer products and services. After the complaint and a request for a temporary restraining order were filed, the district court, and eventually petitioner, discovered that the method used by petitioner to determine whether respondents and others were copying its guide was flawed.

The explanation for this error is set forth in detail in the briefs of the parties and will not be repeated. The essential points are that the error was unintentional, as the trier of fact specifically found, and that petitioner was merely negligent in the manner in which it compiled and presented its evidence to the district court. There was no finding, contrary to respondents' suggestion in its Opposition to Certiorari at 2, that there was perjury in the sense that petitioner's employees knowingly made false statements of fact. When petitioner's mistaken factual assertions were discovered, the district court denied the motion for the temporary restraining order and initiated a process that eventually led to monetary sanctions of $13,865.66 being imposed against petitioner under Rule 11 of the Federal Rules of Civil Procedure. That sum represented

the entire amount of respondents' attorneys' fees for opposing the temporary restraining order in the district court. In addition, the court ordered the case dismissed as a further sanction for violating Rule 11. While sanctions were also originally sought against the law firm representing petitioner, but not the lawyer who had actually signed the pleadings, respondents withdrew that part of their motion after the law firm went into bankruptcy.

Despite the absence of any finding of bad faith on the part of petitioner, the district court awarded attorneys' fees against petitioner, applying the same standard of adequate investigation that is applied when Rule 11 sanctions are sought against a member of the Bar. The court of appeals affirmed, relying principally on what it believed to be the clear language of Rule 11. Although the Rule draws no explicit distinction between the standard by which attorneys are to be judged, and the standard that applies to their clients, it also imposes a duty only on the person who signs a pleading which is rarely the client.

However, the court of appeals reversed the portion of the sanctions order based on oral representations in the district court as outside the scope of Rule 11. Because it did "not know the impact this will have on the monetary award or dismissal of the action," the court vacated the sanctions order and remanded the case to allow the district court to reconsider its choice of sanctions in light of the rulings of the court of appeals. On remand, the district court *sua sponte* affirmed the sanctions order in its entirety, including the order of dismissal. In the meantime, the petition for writ of certiorari was filed in this case with respect to the attorneys' fees sanctions issue. However, no appeal was filed from the final order of dismissal, and therefore it appears that the validity of that order is not directly before this Court.

SUMMARY OF ARGUMENT

The district court ordered petitioner to pay more than $13,000 in legal fees incurred by respondents in defending against petitioner's request for a temporary restraining order in this copyright action. It did not find that petitioner had acted in bad faith or with an improper purpose, but only that its officers and employees were negligent in the manner in which they gathered evidence to support its infringement claim. In awarding fees, the court did not rely on any statute, but solely on Rule 11 of the Federal Rules of Civil Procedure.

The question presented is whether a court may impose fee-shifting against a client under Rule 11 in these circumstances. For the reasons set forth in petitioner's brief, we agree that, properly construed, Rule 11 does not allow for fee-shifting (or any other similar sanctions) against a client that is represented by counsel under the facts of this case. In this brief, *amicus* offers another, entirely separate reason to support reversal: to construe Rule 11 as the Ninth Circuit did would raise very serious questions under the Rules Enabling Act, 28 U.S.C. § 2072, because provisions for fee-shifting involve substantive rights which may not be abridged, enlarged, or modified by the Federal Rules.

Under the Court's decision in *Alyeska Pipeline Services Co. v. Wilderness Society*, 421 U.S. 240 (1975), the question of whether fee-shifting should be allowed, including which parties may benefit from it, and on what terms and conditions, is one for Congress and not the courts. Whether to alter the burdens of litigation from the usual American Rule is precisely the kind of policy decision that Congress has reserved to itself because fee-shifting affects not merely the manner in which a case is litigated, but is intended to give an advantage to one side or the other in the litigation process itself. To construe Rule 11 as authorizing the courts to create new rules

for fee-shifting would be to allow the judicial branch to usurp Congress' role, a particularly problematic result here because Congress has already struck its own balance under the Copyright Act when it decided to provide for a limited form of fee-shifting in 17 U.S.C. § 505. If the ruling below is upheld, it will, in effect, mean that Rule 11 —a procedural rule — can alter a substantive statute, precisely what section 2072 forbids.

ARGUMENT

IF RULE 11 WERE READ TO AUTHORIZE FEE-SHIFTING IN THIS CASE, IT WOULD VIOLATE THE RULES ENABLING ACT.

The district court relied on its authority to impose sanctions under Rule 11, and there is no doubt that it ordered the petitioner, the client, to pay all of the attorneys' fees and expenses of respondents, the defendants. It did not find bad faith on the part of petitioner, only negligence on the part of its employees. If Rule 11 is read to authorize such fee-shifting, then the Rule is invalid because it would "abridge, enlarge, or modify," the "substantive rights" of the parties, in contravention of the Rules Enabling Act, 28 U.S.C. § 2072. To be sure, the line between substance and procedure varies from context to context, *Sun Oil Co. v. Wortman*, 486 U.S. 717, 726 (1988), and "might sometimes prove elusive." *Miller v. Florida*, 482 U.S. 423, 433 (1987). But this Court's decision in *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240 (1975) ("*Alyeska*"), makes it clear that decisions about whether to award attorneys' fees, to which party or parties, and under what circumstances, are matters of substantive policy that are the sole province of the legislature — in this case Congress, because the provision of attorneys' fees is an integral part of the substantive rights that are at issue in this case under the federal copyright laws.

At issue in *Alyeska* was the authority of the federal courts to award attorneys' fees to private plaintiffs in an environmental action arising under federal laws, on the theory that they were acting as private attorneys general. In his opinion for seven members of the Court, Justice White began with a recognition that, under the American Rule, each side ordinarily bears its own attorneys' fees. Reviewing the history of both federal statutes on fee-shifting and the common law, the opinion concluded that the only judicially recognized exceptions were for cases producing a common fund, cases involving a common benefit to a small or discrete group, and cases involving bad faith, none of which arguably applied there. The Court did not dispute that there were sound policy reasons to support a private attorney general exception to the American Rule, but it declined to adopt such an exception, finding that a task for Congress.

In the view of *amicus*, *Alyeska* virtually controls the outcome of this case. Admittedly, *Alyeska* involved a case where a party asked the courts to create the fee-shifting in their adjudicative capacity, whereas here this Court was acting in its capacity as a rulemaker when it promulgated Rule 11. However, those differences are immaterial because the reasons why this Court refused to create a private attorney general exception in *Alyeska* apply fully to the creation of a fee-shifting exception through Rule 11.

Thus, this Court began its discussion in *Alyeska* by noting that it was being asked to "reallocate the burdens of litigation" and to do so "without legislative guidance," 421 U.S. at 247, precisely what respondents claim is authorized under Rule 11 here. The Court subsequently observed that Congress has chosen to provide for fee-shifting under a number of different federal statutes, although not the ones at issue in *Alyeska*. *Id.* at 260. These statutes are, the Court noted, by no means identical, since some make awards mandatory

(antitrust, 15 U.S.C. § 15), others make fee-shifting the general rule (civil rights, 42 U.S.C. § 2000a-3(b) and § 2000e-5(k)), and others make fee-shifting available in exceptional cases (patents, 35 U.S.C. § 285). *Id.* at 261. Furthermore, the Court noted, some statutes allow for recovery by prevailing parties, some are limited to prevailing plaintiffs, and some are for prevailing parties, but with different standards for plaintiffs and defendants. *Id.* at 263-64. Thus, as the Court observed, "[u]nder this scheme of things, it is apparent that the circumstances under which attorneys' fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine." *Id.* at 262.

Beyond the difficulties in line drawing, and in finding an appropriate set of guidelines under each federal statute, the Court refused to award fees because that "would make major inroads on a policy matter that Congress has reserved for itself." *Id.* at 269. In each of these situations, the Court concluded, "it is not for us to invade the legislative province by redistributing litigation costs in the manner suggested by respondents and followed by the Court of Appeals." *Id.* at 271. Indeed, just last term, the Court in *Kaiser Aluminum & Chem. Co. v. Bonjorno*, 110 S. Ct. 1570, 1576 (1990), relying on *Alyeska*, reiterated that "the allocation of the costs accruing from litigation is a matter for the legislature, not the courts." And, as Justice Brennan succinctly stated in his dissent in *Marek v. Chesney*, 473 U.S. 1, 35 (1984), the "right to attorney's fees is 'substantive' under any reasonable definition of that term."

All of the policy reasons that compelled this Court in *Alyeska* to leave to Congress the job of deciding when and under what circumstances fee-shifting should be allowed apply equally whether the Court is acting in its adjudicative or rulemaking capacity. Accordingly, for the reasons given in *Alyeska*, Rule 11 should be construed, as petitioner urges, not to allow fee-

shifting based on negligence, contrary to the ruling of the courts below. *See also Gaiardo v. Ethyl Corp.*, 835 F.2d. 479, 483 (3rd Cir. 1987) (Rule 11 "should not be viewed as a general fee-shifting device," which was intended to effect "a major change in the American Rule").

The foregoing analysis applies to all cases in federal courts, but there is another reason why Rule 11 cannot be read to allow fee-shifting here. This is a copyright case, and Congress has already undertaken the very balancing on fee-shifting which Rule 11 is alleged to cover, when it included a special attorneys' fees provision for copyright cases in 17 U.S.C. § 505. Indeed, the predecessor of the current provision was specifically cited by this Court in note 33 in *Alyeska*. Under the balance struck by Congress, the person holding the copyright is generally, but not always, awarded attorneys' fees, whereas the alleged infringer is sometimes, but rarely, awarded them, *see, e.g., McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 323 (9th Cir. 1987); *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984), although some courts have adopted a more even-handed approach. *See, e.g., Lieb v. Topstone Industries, Inc.*, 778 F.2d 151, 155 (3rd Cir. 1986). Yet, according to respondents and the lower courts here, trial judges have the power under Rule 11 to come up with a different balance, under which copyright holders could be made to pay fees under circumstances in which they presently would not have to pay them under the Copyright Act.[1]

In a recent case, the Ninth Circuit overturned a district court that had imposed a sanction of attorneys' fees, albeit not under

[1]While there has been no determination of respondents' right to receive attorneys' fees under the Copyright Act, it is a fair inference that they do not believe that they are entitled to such fees since they did not seek fees under that Act below. Whether, in fact, section 505 authorizes fees in this case is not before the Court since it was never raised below. It is also an issue on which *amicus* takes no position.

Rule 11, against an attorney who was negligent in not obtaining admission to the district court in which his case was pending. *Zambrano v. City of Tustin*, 885 F.2d 1473 (1989). In so ruling, the Court followed precisely the approach advocated by *amicus* here, *id.* at 1481-82, but then attempted to distinguish Rule 11 in a footnote (n.26), on the ground that this Court was required to send the proposed Rule to Congress for six months before it became effective. Although we agree with the basic analysis in *Zambrano*, we believe that the footnote is fundamentally mistaken because it is directly contrary to *INS v. Chadha*, 462 U.S. 919 (1983). In *Chadha*, this Court specifically distinguished the report and wait provisions of the Federal Rules from the legislative veto set aside there, finding the former to be permissible, because it altered nothing without a duly approved statute, whereas the veto alone altered the rights of affected persons. *Id.* at 935 n.9. Since Rule 11, like almost all Federal Rules, became effective simply by the passage of time, the distinction offered by the Ninth Circuit cannot stand, but its basic point regarding the impact of *Alyeska* further supports our analysis.

Although this case arises under federal, rather than state law, the result would be the same even if this were a state law case, albeit for an additional reason. Thus, the same limitations on substantive rules apply under section 2072 whether the substantive law is state or federal, but another statute, the Rules of Decision Act, 28 U.S.C. § 1652, imposes a further limit on the power of federal courts to impose their policy judgments on litigants who appear before them when the substantive law is state, not federal. In fact, in note 31 at page 258 in *Alyeska*, this Court commented on the possible difference between federal and state law regarding attorneys' fees, but appeared to conclude that there was none because in both situations fee-shifting "reflects a substantive policy of the state" that federal courts are not free to alter, *citing*

J. Moore, Federal Practice and Procedure, ¶ 54.77, pp. 1712-1713 (2d Ed. 1974).

This analysis might be thought to call into question the validity of other provisions, such as Rule 37, which allow attorneys' fees to be imposed against clients. We do not believe that our analysis requires that result for several reasons. First, those Rules do not allow for general fee-shifting of the entire cost of litigation, but only permit it for fees resulting from an isolated event or a series of related events that are part of a larger litigation. Second, and perhaps most significantly, the basis for imposing fees in those circumstances is conduct very similar to, if not identical with, conduct found to be vexatious or in bad faith, for which there is a long recognized exception to the American Rule and for which no separate Congressional authorization is needed. The principal difference between the bad faith exception recognized in *Alyeska* and Rule 37 is that, instead of providing for full fee-shifting for the entire case, Rule 37 allows fee-shifting only for particular discrete portions of the case. Indeed, it is entirely possible for one party to prevail on a Rule 37 sanctions motion, receive a modest fee award, then lose the case on the merits, and, if fee-shifting is involved, have to pay fees for the remainder of the lawsuit to the party that was assessed fees under Rule 37.

In any event, the only issue that this Court must decide is whether fee-shifting is allowable under Rule 11 when the payment will come from a client represented by an attorney, and when no bad faith is involved. If the Court agrees that fee-shifting is not permitted against represented parties based on negligence alone, it might be possible to recover the fees from that party's attorneys, at least where such relief is sought in a timely manner and not abandoned, as happened here. We recognize, as the Ninth Circuit did in *Zambrano*, that even that kind of fee-shifting may be forbidden, although the special

relationship between a court and the members of its Bar may allow greater leeway than with clients. On the other hand, in 28 U.S.C. § 1927, Congress has legislated in the area of imposing fees and costs on attorneys, and there is some basis to believe that it did not intend to go beyond the limited circumstances provided there in allowing fee-shifting. *See* Burbank, *Sanctions in the Proposed Amendments to the Federal Rules of Civil Procedure: Some Questions About Power*, 11 Hofstra L. Rev. 997 (1983). But whatever the outcome there, the case for not allowing fee-shifting between clients under Rule 11 is so clearly dictated by the proper application of *Alyeska* that the Court should not back away from forbidding such fee-shifting, simply because the result is less clear where fees are sought from the attorney.

Finally, while we are reluctant to rely too heavily on legislative history of a Congress subsequent to the one that passed the version of the Rules Enabling Act that was in place in 1983 when amended Rule 11 became effective, we believe that there is substantial, confirmatory evidence that Congress clearly does not intend for this Court, in its rulemaking capacity, to write fee-shifting rules. For example, Congress has expressed concern over proposed amendments to Rule 68, which requires a prevailing plaintiff who has declined an offer of settlement less favorable than the ultimate judgment to pay post-offer costs. In 1983, the Civil Rules Advisory Committee sought an even greater incentive for parties to settle by proposing that expenses and attorneys' fees be added to the shifted costs. Representative Robert Kastenmeier, Chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice, which is the principal committee in Congress dealing with the rulemaking process, wrote the Civil Rules Committee that such an amendment, if promulgated, "would have crossed the line from procedural to substantive." 130 Cong. Rec. 28,164 (1984).

In 1984, the Advisory Committee modified its Rule 68 proposal by labeling this fee-shifting arrangement "sanctions." But Representative Kastenmeier made it clear that he was still uneasy about the changes. In a letter to Judge Frank Johnson, the new Chairman of the Civil Rules Committee, he again expressed "reservations about whether any of the proposed modifications should be statutory or through the rules process." *See* Burbank, *Proposals To Amend Rule 68 — Time To Abandon Ship*, 19 U. Mich. J.L. Ref. 425, 440 (1986). He concluded that "my tentative feeling is that legislation to modify Rule 68 should be introduced, thereby squarely placing all issues on the legislative platter." *Id.* The full House Judiciary Committee supported this position, stating that "[w]hatever the rulemaking power with respect to sanctions for litigation conduct generally, that power does not extend to the alteration of a scheme of remedial rights fashioned by Congress as essential to the enforcement of substantive law. 42 U.S.C. 1988 contains one such scheme." H.R. Rep. No. 422, 99th Cong., 1st Sess. 13 (1985).

Congress further affirmed its view that attorneys' fees matters are to be left to the legislature, not to the rulemaking process, when it amended the Rules Enabling Act in 1988. Representative Kastenmeier, in introducing an earlier version of the legislation, had stated that, in the wake of *Alyeska*, "Congress conferred a substantive right by enacting the Civil Rights Attorney Fee Award Act." 130 Cong. Rec. 28,165 (1984). A later House Judiciary Committee Report commented that the legislation did not grant the Supreme Court power "to promulgate rules regarding matters, such as limitations and preclusion, that necessarily and obviously define or limit rights under the substantive law." H.R. Rep. No. 422, 99th Cong., 1st Sess. 21 (1985). The report continued: "The protection extends beyond rules of substantive law, narrowly defined, however. At the least, it also prevents the application of rules, otherwise valid, where such rules would have the effect of altering existing remedial rights conferred as an integral part of the applicable substantive law scheme, federal or state, such as arrangements for attorney's fees under 42 U.S.C. 1988." *Id.* at 21-22. This report was incorporated by reference in the final House report on the 1988 bill. H.R. Rep. No. 889, 100th Cong., 2d Sess. 29 (1988), *reprinted in* 1988 U.S. Code Cong. & Admin. News 5982, 5989-90.

The Chief Justice also acknowledged the boundaries of the Court's rulemaking powers during the 1988 Rules Enabling Act deliberations. In a letter to Representative Peter Rodino, Chairman of the House Judiciary Committee, Chief Justice Rehnquist assured Congress that the Judicial Conference and its committees were "keenly aware of the special responsibility they have in the rules process and the duty incumbent upon them not to overreach their charter." 134 Cong. Rec. 10,441 (1988). He declared that the advisory committees should be "circumspect in superseding procedural statutes" and that "we will undertake to identify such situations when they arise so that the Congress will have every opportunity to examine these instances on the merits as part of your review." *Id.*

None of these references, standing alone or in combination with the 1988 reenactment of the Rules Enabling Act, would suffice to establish that Rule 11 could not be used as a fee-shifting device, as the lower courts did here. But as confirmatory evidence, showing that Congress agreed with *Alyeska* and the premises that underlay it, this legislative history should reassure the Court that the creation of new fee-shifting exceptions to the American Rule is a matter for Congress (or the states), but not the rulemaking process.

CONCLUSION

For the forgoing reasons, the Court should construe Rule 11 not to authorize fee-shifting in this case, or in the alternative it should conclude that, if Rule 11 does permit such fee-shifting, it is in violation of the Rules Enabling Act.

Respectfully submitted,

Alan B. Morrison
(Counsel of Record)*
Public Citizen Litigation Group
2000 P Street, NW Suite 700
Washington, D.C. 20036
(202) 785-3704

Attorney for *Amicus Curiae*
Public Citizen

August 20, 1990

---

*The extensive assistance of Mark Izeman, a second year student at New York University School of Law, is gratefully acknowledged.